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SUMMARY RECORD OF THE 472nd MEETING

held at the Palais des Nations, Geneva,
on Monday, 29 August 1977, at 3.25 p.m.

President: Mr. de ALWIS (Sri Lanka)

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INTERDEPENDENCE OF PROBLEMS OF TRADE, DEVELOPMENT FINANCE AND THE INTERNATIONAL MONETARY SYSTEM (agenda item 2) (TD/B/665 and Add.1 (Part I) and Add.1 (Part II), UNCTAD/C/1015) (continued)

1. Mr. PANKINE (Union of Soviet Socialist Republics) said that the topic under discussion highlighted UNCTAD's role as the most universal of the international organizations in the United Nations system. It was to be hoped that the discussion would lead to a comprehensive and realistic approach to the numerous concrete problems of foreign trade. The effectiveness of such an approach would depend largely on a strict definition of UNCTAD's mandate, in order to avoid duplication of effort vis-à-vis other United Nations agencies also responsible for discussing global problems. It would therefore be desirable to avoid discussion of controversial issues such as the global interdependence of world economy and concentrate on the topic as worded in the agenda.

2. The UNCTAD secretariat had compiled some interesting and up-to-date material, which provided fresh food for reflection on the true causes of the difficulties besetting international trade. Clearly, under the present system the developing countries bore the burden of the latest crisis in the capitalist economy. Any fruits of economic recovery were immediately seized upon by the multinational companies, the capitalist system working as usual against the true interests of countries in the process of liberation.

3. That was one of the main reasons for his country's belief in the need for a radical restructuring of international trade on the basis of justice and equality, and its firm conviction that there was a fundamental identity of interest between socialist countries and the majority of developing countries in the context of improving conditions of international trade.

4. Applying the principles of the new draft Soviet Constitution to international economic relations, his country was convinced that trade should be freed as rapidly as possible from all forms of discrimination, inequality and dictatorship. World economic developments in the 1970s as reported in the secretariat documents once again revealed that the socialist countries were not affected by the cyclical problems of capitalism, and that their economies had developed steadily without crises, unemployment and inflation, although they did of course feel the consequences of capitalist upheavals, especially in terms of foreign trade. In contrast to the growing instability of the capitalist system during the seventies, the economies of the socialist countries had continued to make steady progress both internally and in foreign trade.

5. Between 1970 and 1976 his country's national revenue had risen by nearly 40 per cent, and industrial production had increased one and a half times, and would exceed the planned targets in the current year. Foreign trade had increased more than two and a half times over the same period; during the first half of the current year it had risen by over 13 per cent; and trade with developing countries had gone up by nearly one-third. Clearly in the circumstances it was pointless to apply the same criteria to socialist countries and capitalist countries when seeking ways of overcoming the disastrous effects of the latest cyclical crisis on the developing countries.

6. Moreover, as stated in document TD/B/665 and by Mr. Arsenis, there was a real need to come to grips with the growing threat of protectionism and discrimination in the form of special trade measures (quotas, countervailing duties, voluntary export limitations and dumping procedures). His country's trade was also increasingly affected by such practices, and he welcomed the UNCTAD secretariat's conclusion that proliferation of trade restrictions posed the single most important threat to international economic co-operation.

7. UNCTAD could not avoid tackling such problems, which fell clearly within its terms of reference, and special attention should be paid to them during the fifth session of the Conference. The USSR was prepared to take an active part in any attempt to eliminate discrimination and inequality from international trade.

8. He agreed with the view in document TD/B/665 that stabilization of world commodity markets would have a beneficial effect on the inflationary situation in capitalist countries, and consequently on the world economy as a whole. His country was convinced that one of the main causes of inflation in the capitalist world was the enormous and growing expenditure on armaments. The problem of disarmament was therefore inextricably linked with efforts to stabilize the world economy.

9. In a wider perspective, effective solutions to the problems under discussion would not be achieved by economic measures alone. What was needed was to create favourable political conditions for greater trust among nations. The solution of the cardinal problems of peace and security would enable the efforts of all mankind to be concentrated on the urgent social and economic problems of the third world.

10. Mr. WINQVIST (Observer for the International Chamber of Commerce), speaking at the invitation of the President under rule 79 of the rules of procedure, said that the situation of the world economy had deteriorated dramatically in the past four years, with accelerating inflation, a steep decline in growth, record unemployment and considerable indebtedness in the oil-importing countries. As a result, the climate for the dialogue between developed and developing countries was not conducive to a consensus on the action required to restore world economic order. The old rules governing international trade and payment had been abolished, but new ones had not yet been agreed upon, and in their absence anarchy would continue to prevail in the fields of trade, capital flows and commodity markets.

11. There was a growing recognition, however, that interdependence was a fact of life and that the problems that beset the world could only be dealt with in a spirit of co-operation and compromise. Yet even where understanding had been reached, Governments seemed to lack the necessary imagination and initiative and preferred short-term and self-centred solutions to domestic problems instead of establishing the basis for more sustained and equitable world-wide economic growth.

12. The serious nature of the problems faced by the different groups of countries was not always mutually appreciated. In the industrial countries high unemployment and inflation had severely disrupted socio-economic conditions, and in the developing nations those problems were compounded by constraints on investment and consumption. As a result, countries were becoming increasingly nationalistic and

there was at times strong pressure for the adoption of protectionist measures. Yet the world had now become too interdependent for any one country to solve its problems alone. The developing world needed to step up its investment and the industrial countries to regain balanced growth. In both cases the role of the business sector was fundamental, but in recent years its contribution to employment, income distribution, social advancement and growth sometimes seemed to be overlooked.

13. Because of the adverse impact of uncontrolled growth in developing nations, business activities must develop in accordance with well-defined rules. In that respect, Governments had a dual responsibility: to establish the legal framework for those activities and to avoid resorting to unfair practices either directly or through public enterprises. Once established, the legal framework should be adhered to, since investment was discouraged if conditions changed too often. Business could only exist if it could operate efficiently and profitably, and since profits were largely re-invested, a prerequisite for dynamic economic growth was the ability of the corporate sector to achieve a viable rate of saving that would ultimately contribute to increasing employment and income redistribution. In the developed countries, the rate of return on capital had been steadily declining in recent years while labour costs were outstripping labour productivity and corporations were being more heavily taxed.

14. However, the contribution by the business sector could be still greater. Governments must negotiate rules that would facilitate the expansion of international trade, promote capital flows and foster investment, but the agreements they made would not be fruitful unless they took into account the nature of the market mechanism and the need for business operations to be profitable. Hence business must be consulted at an early stage in the relevant negotiations. He would stress in that respect the importance of its participation in the Common Fund and in commodity trade. In the former case, the optimum conditions for access by the Fund to capital markets would be more easily assessed if the banking sector were consulted during the drafting of the provisions regarding the Fund's financial structure, management and operations. In the case of commodity agreements, Governments should call upon consultative bodies representing producers, traders and industrial users when negotiating price levels, since the business community not only had valuable expertise to offer but would be more willing to accept new rules if it had itself helped to produce them.

15. Some progress had been achieved in recent years in fostering bilateral co-operation between Governments and the business sector and had led to the conclusion of a number of treaties and measures to facilitate economic relations; but bilateral principles now had to be implemented on a global basis. The problems still existing at the international level called for new channels of communication, while at the national level the parties concerned had to become more aware of the constraints that existed so that grounds for agreement could more easily be found.

16. ICC viewed its role as twofold: to promote among its members a better understanding of the problems of the developing countries, and, through its consultations with intergovernmental organizations, to publicize the views of the business community on those problems. It was now formulating proposals on international trade, commodity agreements and international investments and fostering closer relations between the business community and Governments. Under its regional scheme, businessmen from various countries provided assistance to the business sector of a particular developing country.

17. ICC was also seeking to promote better conditions for the transfer of capital and technology, and was becoming increasingly involved in training programmes. During the past year it had organized conferences, seminars and training courses, often with government support, which had been attended by more than 6,000 executives from all parts of the world.

18. In conclusion he paid a tribute to the work being done by UNCTAD in the cause of economic development, to which the business community had an important contribution to make.

19. Mr. GLOVER-AKPEY (Ghana) said that the prospects for development of the developing countries were largely determined by the external economic environment, the components of which were interdependent and sensitive to the policies and decisions of the industrialized countries. The effects of those policies on developing countries had been largely ignored in recent years. The piecemeal efforts to counteract the consequences of that neglect had largely failed, and the growth rates of developing countries had consequently fallen far short of their basic requirements. The stronger economies had enjoyed greater flexibility in international trade, monetary and financial relationships than the weaker ones. The imbalance had become more marked in recent years, and its unfortunate effects had been felt alike in trade, financial flows and monetary systems.

20. After the regression in the international trade cycle, industrial countries had found themselves with a current account deficit, growing unemployment and high inflation rates. Instead of considering a policy of international co-operation in which developing countries had an equitable share in decision-making, the OECD countries had sought solutions with their own narrowly-conceived interests primarily in mind. No attempt had been made to reach an international consensus on the financing of deficits. Deflationary policies and their self-reinforcing effects had plunged the world economy into the most severe recession it had experienced for 40 years, and the current account deficits of the developing countries, other than oil exporters, had risen from $12.2 billion in 1973 to $41.5 billion in 1975. The volume of their imports had fallen in 1975 by 5.7 per cent, and the volume of their exports by 7.8 per cent; and their already deteriorating terms of trade had thus worsened still further. Although exports had improved somewhat in 1976, imports had grown by only 3.8 per cent because of the need to build up reserves and avoid an even more rapid rise in debts. The current account deficit had consequently been reduced in 1976 but was expected to return to the $35-40 billion range in 1977 and 1978. While the severe recession/inflation of 1974-1975 had abated, its adverse effect would unfortunately continue to be felt by the developing countries for many years to come. It could, however, be greatly alleviated by active policy decisions at the international level.

21. In their desire to safeguard employment, the industrialized countries had adopted a variety of import-reducing measures directed mainly towards labour-intensive imports, in which the developing countries had a comparative advantage. The burden of trade restrictions thus fell inequitably on developing countries. The failure of the recent negotiations on the renewal of the Multi-Fibre Arrangement emphasized the seriousness of the trade restrictions problem for the developing countries.

22. In the financial area, official development assistance had increased at only a fraction of the rate of current account deficits of developing countries, which had been obliged to resort more and more to commercial loans, whose terms had hardened considerably. By 1978, some 25 per cent of the export earnings of developing countries, and in some cases over 50 per cent, would be required for debt servicing. The growing debt burden had greatly reduced the policy options open to them and made them extremely vulnerable to adverse changes in the international economy. Action in that area had to be part of a co-ordinated approach to the important task of achieving interdependence. The problem impinged on the development prospects of developing countries and reflected the inequitable transfer of the burden of adjustment to them as a result of the economic and political policies of developed countries.

23. The tendency for the strong economies to reap the greatest benefit from the international monetary system had increased in recent years, since liquidity creation and distribution was largely carried out by private intermediaries in the stronger industrialized countries, who had seldom taken the capital and financial needs of developing countries into account. The one major international action for official liquidity creation taken in recent years, namely the action on gold prices taken under the amended articles of the International Monetary Fund, had resulted in the industrialized countries of the Group of Ten receiving approximately 71 per cent and developing countries only 7 per cent of the total. The trust fund for the benefit of the poorer developing countries was expected to provide only about $2 billion over a four-year period. It had become increasingly clear that international control over the creation and distribution of international liquidity was an essential prerequisite to an equitable and stable monetary system.

24. Failure to recognize the interdependence of trade, development finance and the monetary system had encouraged the transmission of inflation from the industrialized countries to the world economy. The disequilibrium between prices of commodities and manufactures had a strongly inflationary effect. The Integrated Programme for Commodities would help to overcome that and would form an essential part of an interdependent approach to the problems of developing countries.

25. The burden of adjustment of the economic crisis of recent years had fallen disproportionately on developing countries. If decisions at the international level were taken with due regard to interdependence, international economic co-operation would have much more meaning. That would help not only the developing countries but also the industrialized countries, since developing countries would play a stabilizing role instead of remaining the victims of international inflationary and deflationary forces they were obliged to reinforce.

26. Mr. DAIAC (Romania) said that the trend of international events had shown not only that there was a complex interdependence between economic and political factors and the different elements within individual economic systems, but that there was a tendency for such interdependence to increase. No problem could now be solved effectively without taking account of its possible consequences in other areas.

27. States were increasingly emphasizing the importance of their free economic development, while showing an unprecedented desire to participate in examining the major economic problems of mankind. To ensure that those two trends were not in conflict, relations among States had to be established on a new foundation and in the framework of a new international economic order. But in spite of UNCTAD and other United Nations agencies, there had been little real progress in that direction. Large areas of the world were seriously under-developed; the gap between the developed and developing countries had widened; and tariff and non-tariff barriers hampered the development of international trade.

28. His delegation was convinced that such bodies as UNCTAD, GATT, IMF and IBRD should not only be concerned with crises in the world economy but should initiate international co-operative action to prevent the occurrence of critical situations. It therefore favoured close co-operation between UNCTAD and kindred organizations. Joint secretariat meetings might be arranged for the discussion of specific problems, particularly since most States were members of the organizations in question.

OTHER PARTICULAR MATTERS IN THE FIELD OF TRADE AND DEVELOPMENT (agenda item 6) (TD/B/AC.21/2, TD/B/AC.21/3, A/32/126) (continued)

(e) PROGRESS IN THE IMPLEMENTATION OF:

(i) SPECIAL MEASURES IN FAVOUR OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

(ii) SPECIFIC ACTION RELATED TO THE PARTICULAR NEEDS AND PROBLEMS OF ISLAND DEVELOPING COUNTRIES

(iii) SPECIFIC ACTION RELATED TO THE PARTICULAR NEEDS AND PROBLEMS OF LAND-LOCKED DEVELOPING COUNTRIES

29. Mr. LALOVIC (Yugoslavia), speaking on behalf of the Group of 77, proposed that the Board adopt the following draft decision:

> "The Board requests the Secretary-General of UNCTAD to implement urgently paragraph 35 of Conference resolution 90 (IV) and to this end to make all appropriate arrangements for convening the special meeting without any further delay"

30. The draft decision was adopted.

31. The PRESIDENT said that the Secretary-General of UNCTAD would follow UNCTAD practice with regard to arrangements for meetings.

32. Mr. GEBRAHIN (Ethiopia), after outlining the background of UNCTAD's study of the problem of the least developed among developing countries, said that in spite of all endeavours both the developed market economy countries and the socialist countries had failed to live up to their commitments regarding the implementation of the measures taken, and he appealed to them to do so urgently. His delegation had hoped that the Secretary-General of UNCTAD would make a detailed statement reviewing the progress made in the implementation of the special measures in favour of the least developed countries.

33. Turning to document TD/B/AC.21/2, he said that it gave the misleading impression that there were abundant financial and technical resources available and that the problem was one of absorptive capacity. His delegation hoped that the UNCTAD secretariat would prepare more realistic and relevant documents containing policy suggestions that the institutions engaged in multilateral and bilateral financial and technical assistance could adopt in the future.

34. With regard to the forthcoming special meetings, which were normally between the developed market economy countries and socialist countries on the one hand and the developing countries on the other, he said that the one called for in UNCTAD resolution 98 (IV), paragraph 35, was merely between, on the one hand, institutions engaged in multilateral, bilateral, technical and financial assistance belonging to the market economy countries and the socialist countries, and on the other the 29 least developed countries. If there were developing countries with financial and technical aid institutions that were prepared to assist the least developed countries, that could be done within the framework of economic co-operation among developing countries. The Secretary-General of UNCTAD should therefore fix the date for the special meeting and notify the Governments of the least developed countries among developing countries, as well as the non-governmental institutions.

35. Mr. SALIBA (Malta) noted with regret that an issue first raised in UNCTAD as far back as 1972 had made so little progress to date in regard to "specific action". Resolution 98 (IV), paragraph 33, had at least clearly identified the economic characteristics of developing island countries which needed special attention. When an island happened to be small, its disadvantages assumed far greater proportions.

36. In that connexion, UNCTAD had a particular role to play, in addition to that of the specialized agencies. It could look at those problems from the over-all view of trade and development and provide the balanced approach essential for steady economic development. It did not have to embark on initiatives which lay outside its mandate; what was required was that UNCTAD should see the problems as a whole and take a co-ordinated approach to them. For example, the Integrated Programme for Commodities, including the Common Fund, should give more attention to the problems of island developing countries, especially those with "low resource endowment", than they had been receiving so far.

37. Lastly, his delegation welcomed the October 1977 meeting on feeder and inter-island services, and hoped that that meeting would be the first of a number of studies dealing with specific action to be taken in relation to the particular needs and problems of island developing countries.

38. Mr. DIABZAC (Chad), after expressing his delegation's gratitude to Afghanistan for its tireless efforts on behalf of the most under-privileged countries of the world, said that despite the commendable efforts made by the Secretary-General of UNCTAD, the meeting of multilateral and bilateral financial and technical assistance institutions to review the needs of the least developed countries, in accordance with Conference resolution 98 (IV), had not been held, for reasons of which all were aware. In the meantime, pending the eagerly-awaited establishment of a new international economic order, emergency measures had been taken to alleviate the plight of some of the least developed countries.

39. The record for the measures taken was a sorry one. International decisions remained a dead letter, and the meeting agreed upon at the fourth session of the Conference by consensus seemed likely to be postponed indefinitely. Such a meeting seemed absolutely essential for obtaining a better understanding of the special problems of the least developed countries, and a definite date should be set for it, not later than the first quarter of 1978.

40. Mr. IVANOV (Union of Soviet Socialist Republics), speaking on behalf of Group D, said that the socialist countries had joined in the consensus by which resolution 98 (IV) had been adopted at Nairobi, on the understanding that due regard would be paid to the joint statement issued by them at the time (TD/211), which had outlined a broad programme of measures aimed at solving the problems of the least developed island and land-locked developing countries.

41. Meanwhile, progress had been made in concluding long-term trade agreements with those countries, and trade relations were expected to improve steadily. The socialist countries were prepared to assist in building up industries in the least developed countries, and to accept payment in products rather than in currency, since, in view of the difficult financial position of the latter countries, that would undoubtedly be the most beneficial procedure.

42. Since the fourth session of UNCTAD, the USSR had established trade relations with the Republics of Cape Verde, Madagascar and Sri Lanka, and had concluded a special agreement concerning transit shipments with Afghanistan. Bulgaria had also taken legal measures to assist the least developed among the developing countries. Promising results were also anticipated from a recent decision of the Group of 77 concerning special meetings of technical institutions, as well as from the UNCTAD secretariat's pilot studies aimed at reducing transport costs for island and land-locked countries.

43. Lastly, while fully approving the specific points brought out in resolution 98 (IV), he stressed that any realistic solution to the problems of the least developed among the developing countries would necessarily depend on the reorganization of international relations on a basis of equality and justice.

44. The PRESIDENT said that agenda item 5 (c) would remain open for further discussion.

The meeting rose at 5.15 p.m.